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## Helping accountants do the right thing

Against a backdrop of high-profile corporate scandals, the accountancy profession is set to come under stricter ethics standards.

By **Francis Kan**

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COME next year, a new set of standards will come into effect that will help professional accountants respond to actual or suspected wrongdoing by their clients. This is just one of several moves or proposals unveiled in recent years aimed at strengthening ethical behaviour in the profession.

Revisions to the International Code of Ethics for Professional Accountants to clarify the responsibilities of accountants in practice and business when dealing with non-compliance with laws and regulation (NOCLAR) were approved at an International Ethics Standards Board for Accountants (IESBA) meeting earlier this year. The changes are expected to be effective from July 15, 2017.

The new guidelines come in the wake of several high-profile corporate scandals that have taken place recently. These include Volkswagen's emissions-cheating scandal to allegedly inadequate money-laundering controls at financial firms such as HSBC Holdings PLC and US Bancorp.

The issues covered under these revisions are mostly linked to proposals requiring auditors and chief financial officers (CFOs) to consider reporting, or "whistleblowing", suspected illegal acts to the authorities. Kwok Wui San, chairman, ethics committee, Institute of Singapore Chartered Accountants (ISCA), said that the issues are complex and may have personal implications too.

"It will mean making accountants responsible for public interest and even moral duties beyond their scope of work or employment," said Mr Kwok, who is also a partner at PwC Singapore. He cited the possibility of accountants having to report suspected illegal burning that causes haze or the tampering of car emissions testing.

"While every person is expected to play the good citizen duty, is it right that a citizen who happens to be an accountant is automatically held accountable to a higher public responsibility?" he asked.

However, he noted that public expectations of what auditors and CFOs should do when they encounter suspected illegal acts are changing, and that people expect accountants to do more as trusted gatekeepers.

Faced with such a conundrum, the debate is likely then to focus on the scope of an accountant's responsibility. Rather than make them responsible for every suspected illegal act, the rules should take account only those illegal acts that are of significant public interest, argued Mr Kwok.

Another issue that needs to be considered is how to protect accountants who do the right thing and tell on those who commit illegal acts. While there are whistleblowing protection provisions in certain laws in Singapore - including the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act - there is no act that provides legal protection for individuals engaged in whistleblowing, said Ong Bee Yen, chief ethics & compliance officer, Deloitte Southeast Asia.

For example, if an auditor suspects that a listed company did not comply with an SGX disclosure regulation that may result in an adverse consequence to its share price, the auditor would be obliged under NOCLAR to report the matter. "The auditor is not accorded any whistleblower protection under the legislation in Singapore," said Ms Ong.

The Code of Ethics has also been strengthened to promote ethical behaviour by professional accountants in business (PAIBs). These include issues such as addressing pressure by superiors and others to engage in unethical or illegal acts, and addressing the responsibility of PAIBs to produce financial reports that are faithful representations of the economics of transactions.

However, the ability for PAIBs to resist pressure from top management is easier said than done, industry players said. In many of financial scandals, honest accountants have ended up facilitating or keeping quiet about appropriate corporate acts because of pressures from senior management.

"Accountants are humans too. They are susceptible to temptation. They are also susceptible to pressures. Accountants, as any other, have financial obligations. They have families to care for. It is a real dilemma in having to decide between doing what is right, and not risking your job, financial security for the family and maybe personal safety too. This has to be one of the biggest challenges an accountant might face," said Mr Kwok.

Added Sajjad Akhtar, managing director, PKF-CAP Advisory Partners: "Ultimately, it is a matter of integrity of the person concerned. In the Singapore context, the social, educational and business environment in which accountants are groomed will have an impact on their behaviour and engender a low tolerance of anything unethical."

To boost auditor independence, there have also been proposals - known as the long association provisions - to lengthen the "cooling-off" period between an Engagement Quality Control Review Partner (EQCR) and the client.

An EQCR is one who is independent of the engagement team, and has the experience and authority to objectively evaluate judgments and conclusions made by engagement teams. For audits of listed companies in Singapore, the EQCR has to be rotated after seven years with one client. The individual cannot return to that same client in that role for two years.

"The long association provisions reflect a trade-off between safeguarding independence on the one hand and audit quality on the other. Experience gained in auditing a particular entity enables the engagement partner or the EQCR to develop an in-depth understanding of the business and its underlying risks," said Mr Akhtar.

"However, this must be balanced against the risk of the partner concerned becoming overly familiar with the audit issues or client management personnel, and therefore perhaps becoming susceptible to complacency in applying appropriate rigour to consideration of the issues," he added.

Some have questioned the effectiveness of the current rotation requirements as an individual could be playing the EQCR role for up to 14 years out of a total of 16 consecutive years on the engagement, assuming that the EQCR returns to the engagement after the cooling period is completed.

"The purpose of rotation is to facilitate an objective, fresh look at issues for a robust challenge at judgements and conclusions reached by engagement teams," said Ms Ong. Critics of moves to lengthen the cooling-off period to five years from two currently say that this may potentially lead to lower quality audits.

However, Ms Ong believed that the attributes required of an EQCR partner would alleviate some concerns with regard to the lowering of audit quality arising from rotation.

"Maintaining audit quality requires having, among other factors, competent, knowledgeable and experienced partners on the engagement in an engagement partner's role or EQCR role. To mitigate loss of critical knowledge necessary for an audit, firms may establish internal processes to ensure that the rotation of EQCR does not happen the same time when the engagement partner is due for rotation," she said.

She added: "Lengthened cooling-off period promotes an objective and independent challenge and serves to enhance trust in auditors' reports."



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